

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6632

BILL NUMBER: HB 1229

NOTE PREPARED: Dec 27, 2002

BILL AMENDED:

SUBJECT: Lake County Taxes.

FIRST AUTHOR: Rep. Smith V

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill increases from \$18,600 to \$30,000 the income eligibility level for the Adjusted Gross Income (AGI) Tax credit for property taxes paid on homesteads in Lake County. The bill also reduces the amount of the credit funded by Riverboat Admissions Taxes in the county.

Effective Date: January 1, 2003 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the expansion of the Lake County circuit breaker. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The bill expands eligibility for the Lake County property tax circuit breaker and requires that 40% of the cost of the circuit breaker be paid by the state. As a result, the bill could potentially reduce Adjusted Gross Income (AGI) Tax revenue to the state by about \$4.4 M annually beginning in FY 2004.

Background: The bill expands the Lake County property tax circuit breaker by increasing the maximum income eligibility level from \$18,600 to \$30,000. The circuit breaker provides a refundable AGI Tax credit for property tax paid on homesteads by qualifying low income taxpayers in Lake County. Under current law, the tax credit is available to homeowners in Lake County who have earned income of less than \$18,600. A homeowner who has earned income of less than \$18,000 is entitled to a credit equal to the lesser of \$300 or the amount of property taxes paid on the qualified homestead. The tax credit phases out for homeowners with earned income between \$18,000 and \$18,600. For every dollar of income more than \$18,000, the tax credit

is reduced by \$0.50 until the credit is \$0 for homeowners with an earned income exceeding \$18,600. The bill increases the income eligibility levels to \$29,400 for the full credit, with the phase out occurring between \$29,400 and \$30,000.

The bill also changes the method by which the tax credits are funded. Under current law, the entire cost of the circuit breaker is reimbursed to the state General Fund from Riverboat Admission Tax revenue distributed to Lake County, Gary, Hammond, and East Chicago. (Before July 1 of each year, the Department of State Revenue determines the amount of tax credits claimed in the preceding tax year under the circuit breaker and transfers Admission Tax revenue to the state General Fund.) Fifty percent of the tax credit cost is reimbursed by Lake County, with Gary, Hammond, and East Chicago each reimbursing 16.67% of the tax credit cost. The bill requires that these local units reimburse only 60% of the cost of tax credits claimed under the circuit breaker. Lake County is required to reimburse 30% of the tax credit cost while Gary, Hammond, and East Chicago each must reimburse 10% of the tax credit cost. The remaining 40% of the tax credits would not be reimbursed.

According to the Department of State Revenue, a total of \$4.96 M in circuit breaker tax credits were claimed by 17,502 Lake County taxpayers in tax year 2001. The estimated impact of the income eligibility change is based on a circuit breaker model employing U.S. Census Bureau data relating income and house values of owner-occupied households in Lake County. This model estimates that the income eligibility changes would result in about 21,700 additional taxpayers accessing the circuit breaker, and about \$5.94 M in additional tax credits claimed. Of the total estimated \$10.9 M in AGI Tax credits under the expanded program, 40% (or \$4.4 M annually) would not be reimbursed by local units. Since the circuit breaker changes are effective beginning in tax year 2003, the fiscal impact would begin in FY 2004. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures: The bill (1) expands the Lake County circuit breaker by increasing the income eligibility levels and (2) changes the method by which tax credits under the Lake County circuit breaker are funded (see *Explanation of State Revenues* for further details on both changes). Table 1 below provides a comparison of the required reimbursement percentages under current law and as proposed in the bill.

Table 1 - Current and Proposed Reimbursement

Local Unit	Current	Proposed
Lake County	50%	30%
Gary	16.67%	10%
Hammond	16.67%	10%
East Chicago	16.67%	10%
State General Fund	0%	40%

Although the bill lowers the percentage reimbursement requirement for each local unit, the expansion of the circuit breaker to more homeowners in Lake County is estimated to increase the reimbursement cost to each local unit. Table 2 below compares the expected reimbursement of 2001 actual tax credits with the potential reimbursement of estimated tax credits under the bill. In 2001, tax credits totaled about \$4.96 M, all of which must be reimbursed to the state General Fund from Riverboat Admission Tax revenue distributed to the local

units listed in Table 2. The proposed changes are estimated to increase the cost of the Lake County circuit breaker to about \$10.9 M annually. Under the proposed reimbursement method, this would still increase local unit reimbursement costs by an estimated \$1.58 M annually. Under current law, Riverboat Admission Tax distributions to local units are capped (and guaranteed) at the FY 2002 distribution levels. The FY 2002 (approx.) Admission Tax distributions to these local units are: Lake County - \$17.6 M; Gary - \$6.3 M; Hammond - \$5.3 M; and East Chicago - \$6.0 M.

Table 2 - Comparison of Current and Proposed Reimbursement Cost

Local Unit	Reimbursement of 2001 Tax Credits	Reimbursement of Proposed Tax Credit Cost
Lake County	\$2.48 M	\$3.27 M
Gary	827,000	1.09 M
Hammond	827,000	1.09 M
East Chicago	827,000	1.09 M
Total*	4.96 M	6.54 M

*Total estimated tax credit cost equals \$10.9 M; \$4.4 M is not reimbursed.

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Lake County, Gary, Hammond, East Chicago.

Information Sources: Tom Conley, Department of State Revenue, (317) 232-2107; U.S. Census Bureau, Income and Household data.

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